

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6767**

**BILL NUMBER:** HB 1305

**DATE PREPARED:** Jan 8, 2002

**BILL AMENDED:**

**SUBJECT:** Energy Efficiency Tax Incentives.

**FISCAL ANALYST:** John Parkey, Jim Landers

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**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill exempts sales of certain energy-efficient electrical appliances, heating and cooling products, and fuel cells from the State Gross Retail Tax. The bill entitles a taxpayer to a credit against the taxpayer's state tax liability if the taxpayer installs a qualified energy system in a building owned by the taxpayer. The bill provides that for a single family dwelling, the credit amount is the lesser of: (1) \$3,000; or (2) 25% of the costs of the qualified energy system and its installation. The bill provides that for a building that is not a single family dwelling, the credit amount is the lesser of: (1) \$10,000; or (2) 25% of the costs of the qualified energy system and its installation. The bill requires a taxpayer to obtain a qualified energy system certificate from the Department of Commerce to claim the credit.

**Effective Date:** Upon passage; January 1, 2003.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

The Department of Commerce (DOC) is required to promulgate rules for determining the standards of a qualified energy system and for determining whether an energy system is a qualified energy system. The DOC must approve taxpayers' applications for a qualified energy system certificate. Depending on the number of applications, this will increase administrative expenses for DOC.

**Explanation of State Revenues:** *Sales Tax Exemption:* This exempts the sales of: 1) certain small appliances and 2) and heating and cooling systems that meet or exceed applicable Energy Star efficiency standards developed by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Energy (DOE). The exemption is limited to sales that occur between January 1, 2003, and January 1, 2007.

The analysis of this bill's impact on state Sales Tax revenue was limited, due to data limitations, to the impact caused from the exemption of sales of qualified small appliances from the state Sales Tax.

It is estimated that exempting affected energy-efficient clothes washers, refrigerators, dishwashers, and room air conditioners from the Sales Tax would reduce state revenue by the following amounts:

CY 2003	\$3.5 M
CY 2004	3.9 M
CY 2005	4.6 M
CY 2006	5.4 M
<b>Total Small Appliances</b>	<b>\$17.4 M</b>

The estimates shown above are based on the average price of each type of qualified Energy Star appliance, the estimated market share of each type of qualified appliance, and the estimated total number of units of each type of appliance sold in Indiana. The analysis also assumed that the bill's effective reduction in the price of qualified appliances would increase the number purchased by 2% each year. This increase is in addition to the estimated growth in the market share of Energy Star appliances as a result of changes in federal standards and in manufacturing efficiencies.

Sales of the following energy-efficient heating and cooling products would be exempt from the Sales Tax under this bill: boilers, central air conditioners, electric air source heat pumps, furnaces, geothermal heat pumps, and programmable thermostats, high-efficiency natural gas and electric water heaters and heat pumps, and fuel cells.

Other than the heat pumps, central air units, and thermostats, the items eligible for the Sales Tax exemption under the bill are still being developed and may take several years before they are actually available for sale. As a result, the impact of this provision is expected to be somewhat minimal. The bill could increase sales of efficient air conditioners, heat pumps, and thermostats that are eligible for the exemption. The impact of this provision is indeterminable.

If more energy-efficient small appliances and heating and cooling systems are purchased as a result of this bill, the state may see further reductions in Sales Tax income generated from the sale of electricity, natural gas, and water. Purchasers of exempted Energy Star appliances may choose to use the savings created by this exemption to purchase other taxable goods that would not have been purchased otherwise. If additional taxable goods are purchased, the impact of this proposal may be partially mitigated.

Gross Retail (Sales) and Use taxes are deposited in the State General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Fund (0.04%).

*Energy System Tax Credit:* The bill establishes an energy system credit effective for tax years beginning January 1, 2003. A taxpayer is entitled to a credit for the installation of a qualified energy system installed in a building located in Indiana after December 31, 2002. A qualified energy system is defined as equipment designed primarily for the collection, transfer, distribution, storage, or control of solar or wind energy. The tax credit for an energy system installed in a single family dwelling is limited to the lesser of \$3,000 or 25% of the cost paid for installation and materials. For energy systems installed in buildings which are not a single family dwelling, the credit is limited to \$10,000 or 25% of the cost paid for installation and materials.

The tax credit may be applied to a taxpayer's tax liability for Gross Income, Adjusted Gross Income, Supplemental Net Income, Bank, Savings and Loan Association, Insurance Premiums, and Financial Institutions taxes. The tax credit may not exceed the taxpayer's state income tax liability for that tax year, but the excess may be carried over to subsequent years. If more than one taxpayer owns the building in which the qualified energy system is installed, each taxpayer is entitled to the credit in proportion to their ownership interest in the building. The tax credit expires January 1, 2012.

This tax credit is similar to the credit enacted by P.L. 20 - 1980 which became effective July 1, 1981, and expired January 1, 1985. Based on DOR's Individual Income Tax statistics, the following number of taxpayers and amount of credits claimed from 1981 to 1994 is shown below. (This credit was applicable for three and one-half years, but affected revenue collections for 14 years due to the carryforward provision of the credit.)

<b>Tax Year</b>	<b># Taxpayers</b>	<b>\$ Credit Claimed</b>	<b>Average Credit</b>
1981	1,250	\$726,521	\$581
1982	2,498	\$1,342,201	\$537
1983	5,251	\$3,737,401	\$712
1984	7,722	\$5,483,031	\$710
1985	11,034	\$8,209,384	\$744
1986	7,323	\$4,071,390	\$556
1987	3,814	\$2,137,877	\$561
1988	1,567	\$622,095	\$397
1989	700	\$210,311	\$300
1990	718	\$133,218	\$186
1991	426	\$174,886	\$411
1992	350	\$93,474	\$267
1993	263	\$45,120	\$172
1994	39	\$4,152	\$106

It is not known how many taxpayers will apply for this new tax credit or the number of years that the credit may be carried forward. This credit will affect revenue collections deposited in the General Fund and the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Commerce; Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Association of Home Appliance Manufacturers; U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*; Bill McNary, D and R International, 301-588-9387; U.S. EPA and U.S. Department of Energy, [www.energystar.gov](http://www.energystar.gov); Department of State Revenue.